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SUBJECT: PART II OF A SERIES: IRANIAN ECONOMIC ACTIVITY IN
SYRIA OVERSTATED (C-NE7-02556) - INVESTMENT

REF: A. DAMASCUS 55
[1](#)B. DAMASCUS 240
[1](#)C. DAMASCUS 524
[1](#)D. DAMASCUS 559

DAMASCUS 00000735 001.2 OF 004

Classified By: Charge d'Affaires Maura Connelly for reasons 1.4(b,d)

Summary

[1](#)1. (SBU) This is the second cable in a three-part series examining Iranian economic activity in Syria. The largest Iranian investment projects in Syria are two car assembly plants that are struggling to break even just one year after opening. Several other projects touted as "investment" are actually contracts the SARG has awarded to Iranian government-owned companies. Over 28 other economic initiatives have been proposed in recent years, with little to no follow-up. In but one example, the Iranian Amiran company failed to fulfill its contract to provide 1200 mini-buses to the Syrian Ministry of Transport, which ultimately awarded the project to a Chinese company. End summary.

Iranian Investment Minimal

[1](#)2. (SBU) Private Iranian investment in Syria is minimal, as most Syrian-Iranian projects involve para-statal Iranian companies as contractors. One of the rare examples of actual private Iranian investment is a mineral oil refinery, known as the Damascus Petrochemical Refinery, located in Dumeir. The refinery was a USD 7.2 million capital project that commenced operations in 2004.

13. (SBU) Perhaps Iran's highest profile investments in Syria are two automobile assembly plants that opened in 2007. The first plant, known as SIAMCO, is a USD 60 million joint venture among Iranian Khodro, the SARG General Organization for Engineering Industries, and the private Syrian al-Sultan Group. Located just outside of Damascus in Adra, the SIAMCO plant produces the "Sham" (colloquial for "Syria") car with either 1600cc or 1800cc Peugeot engines and transmissions for about USD 12,200 or USD 13,600, respectively. In June 2008, a reputable media outlet reported that SIAMCO was only selling about 50 of the 240 cars that it produced each week and the Ministry of Economy approved the cars for export -- although no one seems quite certain where outside of Syria there is a market for a car called the "Sham." Consumers have complained about the car's relatively high price and poor after-market service, as spare parts are only available from the factory.

14. (SBU) The second car assembly plant in Syria is a USD 50 million joint venture between the Iranian car manufacturer Saipa (80 percent shareholder) and private Syrian company Hmeisho Trading (20 percent shareholder) known as SIVECO. (Note: Hmeisho is not/not related to infamous Syrian "businessman" and MP Muhammad Hamsho. End note.) Located near Homs in the Hessia industrial zone, SIVECO produces the smaller SABA model car which is a knock-off of the Korean KIA "Pride." Since opening, SIVECO has produced over 5,000 SABAs with the intention of increasing output to 15,000 per year. While the small cars have quickly become the ubiquitous Damascus taxi, private sales are reportedly far lower than originally projected. In summer 2008, SIVECO dropped the SABA price from about USD 10,325 to USD 9,520 in an effort to stimulate sales. According to media reports, the Iranian

DAMASCUS 00000735 002.2 OF 004

government owns 48 percent of Saipa.

Much Iranian "Investment" Actually Contracted

15. (S/NF) The expansion of the Hama Cement Plant provides a more common example of Iranian projects advertised as "investment" in Syria. In the late 1990s, the SARG offered a USD 200 million tender to expand the plant's production line from 1.1 million to 1.4 million tons over four years. After French and Korean companies had already filed competitive bids, the Iranian state-owned Edhasse Sanat Corporation submitted an eleventh-hour proposal to complete the project for USD 190 million -- and the SARG accepted the less expensive Iranian proposal. According to Edhasse Sanat's American-educated Syrian subcontractor, the Iranian company's original engineering design for the expansion was flawed. When he identified their mistake, the Iranians limited his company's role in the project to just providing concrete -- for which the Iranians habitually paid late, if at all. "Just like they lie and stall with you about their nuclear program, they do the same to us in business," the Syrian commented. Nearly a decade later, the project remains unfinished.

16. (S/NF) In a blatant attempt to re-package the story, the SARG announced in December 2007 that it had awarded the Iranian Edhasse Sanat company a USD 200 million contract to build a new production line at the SARG-owned Hama Cement Plant. According to press reports, the Syrian General Organization for Cement and Building Materials is fully financing the expansion, which "was delayed due to problems with subcontractors."

17. (S/NF) From 2005-2007, the Iranian Azarab Company served as prime contractor for the USD 70 million renovation of the Banyas Power Plant. Although the project was completed on time, the Iranian company's treatment of its Syrian "partner" still reverberates in the Syrian business community. Contacts tell us that Azarab's original Syrian partner was

instrumental in bribing the relevant SARG officials ensure the Iranian company won the contract. Once the contract was signed, however, Azarab reportedly cut the Syrian out entirely -- with no compensation for his bribes -- and chose a different Syrian businessman with closer ties to the regime. Locals attribute Azarab's success in finishing the project to its hiring of European sub-contractors -- ABB of Germany, the Italian ANSALDO, and Colenco of Switzerland.

18. (C) In a rare positive contracting example, the Iranian company Tohsee Siloha is currently executing a USD 180 million, ten-year SARG contract to build ten 100,000 metric ton (MT) grain silos across Syria by 2010. Although financial details are not confirmed, the Syrian Ministry of Economy is believed to be paying for the project. By October 2008, Tohsee had completed three of the ten silos, which feature European-made Bohler conveyor belts, engines and automated sliding doors. When completed, the silos will provide an additional one million MT storage capacity for Syrian grain. (Note: The SARG views its strategic wheat reserve as essential for its political independence. The Iranian silos will significantly increase Syria's wheat reserve capacity, presently estimated to be about five million MT. End note.)

Many MOUs...few completed projects

DAMASCUS 00000735 003.2 OF 004

19. (C) In recent years, both the Syrian and Iranian governments have announced the signing of numerous MOUs and joint projects -- usually at the conclusion of either a ministerial-level visit or a meeting of the Syrian-Iranian Supreme Council. Significantly, most of these projects remain in the "conceptual" stage, with no specific details offered regarding financing schemes or timelines for completion. A representative list (with dates, if known) of these announcements follows:

-- June 2005: Iranian Parisan Company intends to construct five 66KV and 20KV power stations in Aleppo;

-- March 2006: Iran will build an oil pipeline through Iraq to the Syrian port of Banyas;

-- May 2006: Construction of a railroad from Iran to Syria through Iraq; the Syrian and Iranian electrical grids will be connected via Iraq;

-- Sept 2006: The Iranian Amiran and IPI companies will construct an industrial city near Homs; Amiran will build 50,000 apartments near Adra valued at USD 100 million;

-- June 2007: Iran and Syria will establish a joint insurance company to be capitalized with USD 1.5 million from each country, and USD 2 million raised through an IPO;

-- Sept 2007: Iran will renovate the state-owned ammonia fertilizer plant in Homs; Iranian private sector will invest in Syria's pharmaceutical, medical and hospital equipment industries; Iranian Firouzkouh Dairy company and the Syrian Ministries of Insutry and Agriculture will construct a joint dairy farm/milk factory; Iranian Zam Zam company pledges to build a factory producing soft drinks and non-alcoholic beer in Syria; Iranian Arta Wheel and Tyre Company pledges to develop a new tire production line at the Syrian Apamia Company for Tire Industries in Hama; Iranian Khodro pledges to partner with Syrian investors in constructing a bus and heavy truck assembly plant;

-- Oct 2007: A Syrian-Iranian Businesswomen's Bank will be established in Damascus;

-- Nov 2007: The Iranians will help establish Al Furabi

University for Higher Education in Lattakia;

-- Feb 2008: The Syrian Tourism Ministry and Iranian Association for Cultural Heritage sign an MOU pledging greater cooperation in tourism;

-- March 2008: MOU for cooperation in standards and measurement; MOU creating an Executive Program for Environmental Protection; MOU for cooperation in local administration; MOU for cooperation in vaccination and veterinary medicine; MOU for cooperation between SANA and IRNA news agencies through 2010; MOU to establish a joint company for maritime navigation.

¶10. (C) Additional announcements of Iranian projects in Syria that have yet to materialize include:

-- The Iranian Azarab Company will build a private power plant in Suweidah;

-- The Iranians will build a glass factory in the Hassia industrial city near Homs;

-- A joint Syrian-Iranian institute for water studies will be established;

DAMASCUS 00000735 004.2 OF 004

-- The Iranian Mana Company will build factory to produce concrete poles in Syria;

-- The Iranian companies Transfor and Sonir will build a joint factory with a private Syrian company to produce electric converters.

SICB: The Devil's Spawn?

¶11. (SBU) One joint venture that has recently received increased media attention is the proposal to create a Syrian-Iranian Commercial Bank (SICB), with two U.S.-sanctioned banks -- Iran's Bank Saderat and the Commercial Bank of Syria (CBS) -- as major shareholders. Iran's Housing Minister Mohammad Saeedi-Kia, Syrian Minister of Economy and Trade Amer Hosni Lutfi and Syrian Central Bank Governor Adib Mayaleh signed an MOU in June 2007 establishing the SICB concept. Saeedi-Kia said at that time that 49 percent of the bank's shares will belong to Bank Saderat while CBS will hold 51 percent. (Note: According to Syria's Private Banking Law, foreign banks in Syria must have majority Syrian ownership. End note.) On July 15, 2008, the Syrian Cabinet endorsed the establishment of SICB with a capital of 2.5 billion Syrian Pounds (USD 54.3 million), some USD 24.3 million more than was announced a year ago. Shareholders were listed as Bank Saderat, The Iranian Gadir for Investment Company, Saipa (see para 4), the Commercial Bank of Syria, and "a number of businessmen." Contacts report that the bank is likely to be located in the "Iranian Zone" between Mezzeh and Kfar Souseh, and it appears that site preparation in that area has begun.

Iranian Bus Scandal

¶12. (C) Perhaps the most high-profile example of the Iranian inability to deliver is the case of Amiran, which won a contract in 2006 to provide 1200 mini-buses for Syria's almost non-existent public transportation sector. After the contract was announced, Amiran brought one bus to Damascus and Syrian media photographed Prime Minister Otri taking an inaugural ride. Throughout 2007, Syrian media continued to report on frequent trips by Amiran executives to Damascus to "finalize" the deal, where their local partner was reportedly Khaled Mahjoub (protect). (Note: Mahjoub has a reputation

among the Syrian business community for exaggerating his relationship with Bashar. End note.) By late 2007, the SARG's patience had worn thin and it announced the closing of the Amiran file for failure to comply with the terms of its contract. Wasting little time, the Syrian Minister of Transportation announced in January 2008 that the SARG had awarded a USD 30 million contract to the Chinese company Zijian Timis to provide 600 large municipal buses, with an execution date of 30 months. By late spring 2008, the strikingly clean, green Chinese buses had already appeared on the streets of Damascus.

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